

Strategic Insight

July strategy: Rerating

Economic activities almost come back to pre-crisis level

Vietnam General Statistics Office (GSO) has just released 2Q economic data with both disappointing and improving figures. Accordingly, 2Q20 GDP is estimated to grow only 0.36% YoY for the lowest figure in the past 10 years. In which, agriculture, forestry and fishery grew 1.72% YoY, industry and construction grew 1.38% YoY and service, which has been directly hit by the COVID-19, slid 1.76% YoY. However, breaking 2Q down by month, June saw that both consumption and production have almost resumed normal activities.

Opening the sky is a must

Don't forget the virus is still lingering. And therefore, a 3Q economic pickup is not a sure thing. SBV estimated that around VND2,000bn debts were affected by the pandemic. Of note, VND709tn debts are belongs to service companies including service (VND260tn), hostability estate (VND145tn), logistics (VND135tn) and catering service (VND169tn). Although we expect companies and banks can bear the burden until the end of this year, the longer the international travel ban, the higher probability that a large portion of these debts will turn sour.

Investment strategy: Rerating?

Although rerating is the last resort that we would like to bet on, we would like to argue that (1) while Vietnam economy is now less vulnerable than 2007-2008 crisis, the gap between stock earning yield (inversed PE) with saving rate is now at record high compared with the negative figures of 2008-2012 and (2) in a half of the past 12 years, rerating was the main reason for the VNIndex performance in both bull and bear markets. Therefore, there is a high probability that the VNIndex will likely end up this year between 900-1,000, assuming that EPS will drop 9% (similar to KIS Universe) and the index will trade at higher earnings multiple than 2019 average of 16.4x.

July top 5

Taking into account likely positive 2Q earnings surprises, we would like to recommend Hoa Phat (HPG), Binh Minh Plastics (BMP), Power Construction No.1 (PC1), Vinamilk (VNM) and Sao Ta Food (FMC) for 2Q earnings season in July.

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I. July strategy: Rerating

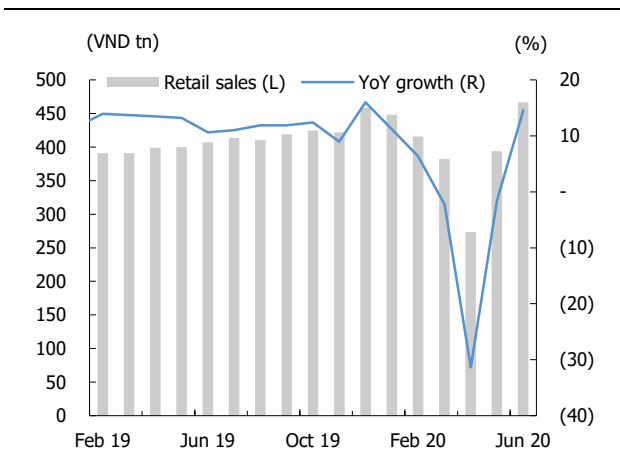
1. Economic activities almost back to pre-crisis level

Vietnam General Statistics Office (GSO) has just released 2Q economic data, consisting of both disappointing and improving figures. Accordingly, 2Q20 GDP is estimated to grow only 0.36% YoY for the lowest growth in the past 10 years. In which, agriculture, forestry and fishery grew 1.72% YoY, industry and construction grew 1.38% YoY and service, which was directly hit by the COVID-19, slid 1.76% YoY. However, breaking 2Q down by month, June saw that both consumption and production have almost resumed normal activities.

June saw normal activities in consumption

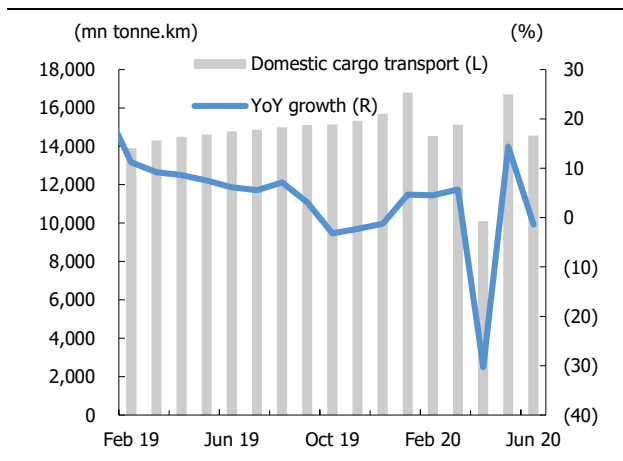
In June, domestic retail sales of consumer goods and service reached VND466tn, shooting up 71% vs April and 14.6% YoY. Meanwhile, despite of still dropping 2% YoY, export value of goods also jumped 19.4% vs April to USD21bn. Data compiled by GSO also showed that both domestic and oreign cargo transportation have recovered back to pre-crisis levels. Accordingly, domestic cargo transportation reached 135 million tonnes and 14,560 million tonne.km, back to the levels of June 2019. And foreign cargo transportation were 3.4 million tonnes and 13,974 million tonne.km, increasing 22.1% YoY and 19.2% YoY respectively.

Figure 1. Monthly retail sales

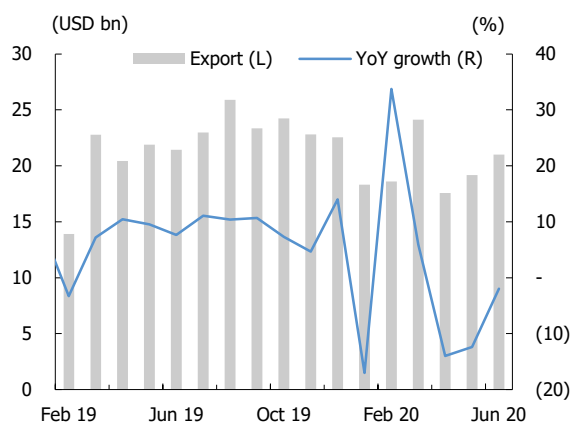


Source: GSO, KIS

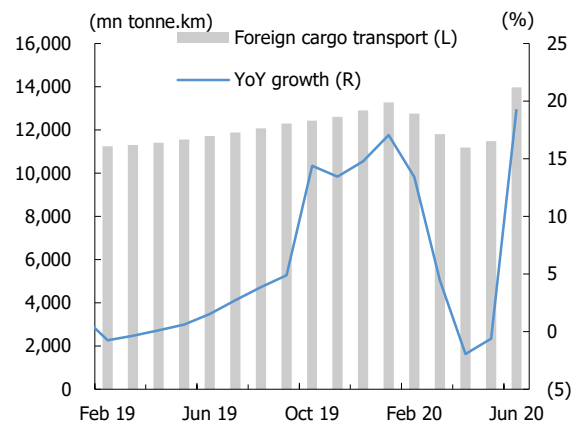
Figure 2. Monthly domestic cargo transportation



Source: GSO, KIS

Figure 3. Monthly export

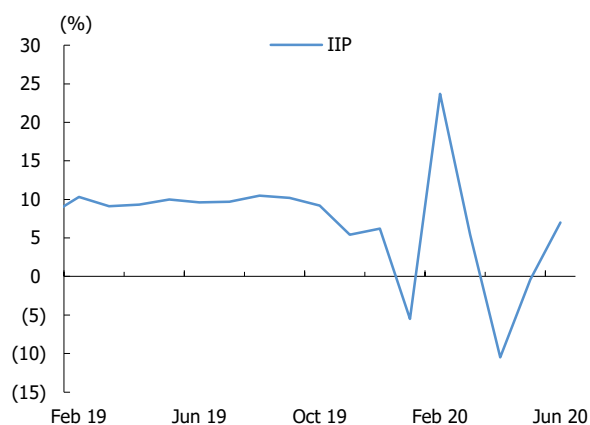
Source: GSO, KIS

Figure 4. Monthly foreign cargo transportation

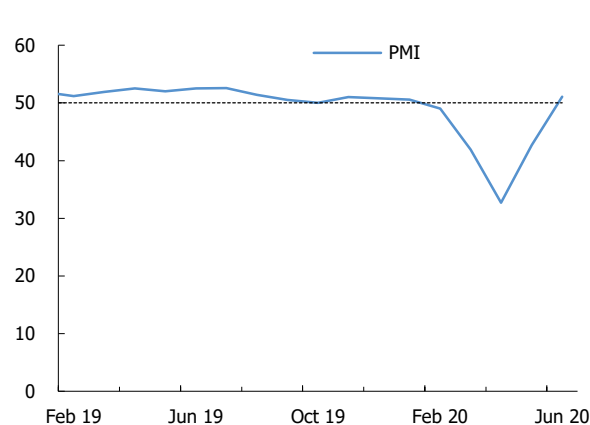
Source: GSO, KIS

Production also resumed pre-crisis level

On the production side, both lagging IIP by GSO and leading PMI by IHS Markit indicated mostly normal manufacturing. While IIP increased 7% YoY in June after decline in April and May, PMI also stood at 51.1, showing growth again after 4 consecutive months of contraction. According to HIS Markit, new orders increased as Vietnam has contained the pandemic but export orders dropped because of the prolonged lockdown of some export markets. Employment continued to decrease for the 5th month but at the slowest pace since February. While some companies increased selling price to cope with higher input price, others decreased selling price due to weak demand.

Figure 5. Index of industrial production

Source: GSO, KIS

Figure 6. Vietnam PMI

Source: GSO, KIS

2. Opening the sky is a must

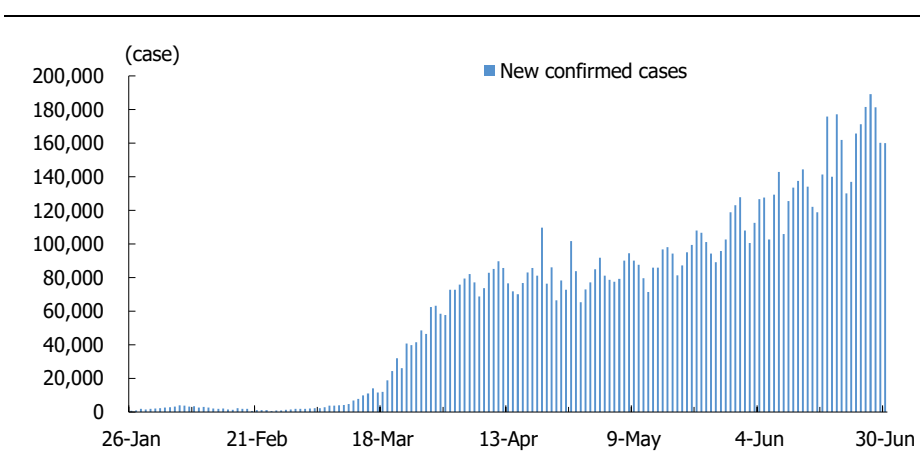
3Q pickup is not a sure thing

Although the frequency of news related to the COVID-19 is less and less, don't forget the virus is still lingering. And therefore, a 3Q economic pickup is not a sure thing.

**COVID-19 will continue
interrupt economies
now and then**

At the latest update, the number of new confirmed cases set a record of nearly 190k on 27 June due to the outbreak in South America and India, making the total confirmed cases surpass 10 million. Moreover, the threat of the second wave in the U.S. and China is also rising. However, we do not expect a second global outbreak because all governments are aware of the COVID-19 and its toxicity and they are all experienced, well-equipped and absolutely ready to deal with it.

Figure 7. Global new confirmed case



Source: WHO, KIS

But the point is that the virus will interrupt global economies if appearing and vanishing now and then. Given the rising number of new confirmed cases, our base case that the virus would be contained by the end of 2Q (according to our COVID-19 strategy report dated 26 Mar) does not become real. As such, Vietnam economy may see a flat performance in 3Q compared with the same period last year.

Opening the sky is a must

Although Vietnam is now almost COVID-19 free, economic risk is rising and opening the sky is a must if the government does not want some minor defaults spiral down to a credit crunch.

**Service is still in dire
straits**

In Jun, it is not surprising that retail sales of tourism was a half away from its pre-crisis level as international travel ban was still intact in Vietnam. International passengers almost dropped to zero in June while domestic passengers recovered around 70% of pre-crisis level. Moreover, retail sales of accommodation and catering service still contracted 8.3% YoY.

SBV estimated that around VND2,000tn debts were affected by the pandemic. Of note, VND709tn debts belongs to service companies including service (VND260tn), hostability estate (VND145tn), logistics (VND135tn) and catering service (VND169tn). Although we expect companies and banks can bear the burden until the end of this year, the longer the international travel ban, the higher probability that a large portion of these debts will turn sour.

3. June performance: chart consolidation

Defensive in the spotlight amid deep correction

In June, the VNIndex corrected 4.6% as traders rushed to take profit amid the rising fear of the second wave of the COVID-19. Average daily trading volume continued to set a new record at 443 million shares.

Financials and Energy dragged the broad market down

Defensive sectors including Consumer Staples, Health Care and Industrials were the only three advancing ones last month with 5.7% MoM, 1.6% MoM and 1.9% MoM respectively. On the opposite side, Energy and Financials were the worst performers with 5.8% MoM and 4.8% MoM losses respectively, followed by IT (-3.4% MoM), Materials (-3.3% MoM), Real Estate (-2.5% MoM), Consumer Discretionary (-1.1% MoM) and Utilities (-0.5% MoM).

Table 1. Sector relative performance vs VNIndex

Sector	2018												2019												2020					
	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6						
Consumer discretionary																														
Consumer staples																														
Energy																														
Health Care																														
Financials																														
Industrials																														
IT																														
Materials																														
Real Estate																														
Utilities																														

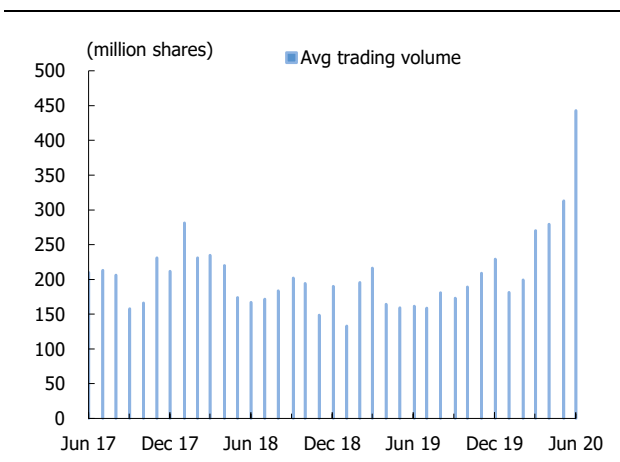
Source: Bloomberg, FiinPro, KIS. Blue: outperform. White: underperform

VNIndex chart signals a buy

Volume rose and foreigners net bought

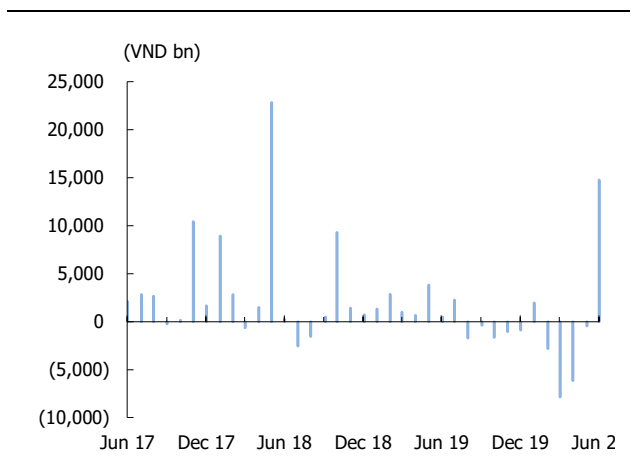
In June, liquidity remain extremely high as there were 443 million shares changed hands daily, a new record. Foreign investors returned to Vietnam stock markets after net buying nearly VND15tn on HSX, mostly thanks to USD650mn KKR-led investment into Vinhomes JSC (HSX: VHM) on 15 June.

Figure 8. Daily average trading volume



Source: FiinPro, KIS

Figure 9. Monthly foreign net buy/sell value



Source: FiinPro, KIS

Chart showed a consolidation period

Looking at the VNIndex chart, during the correction of June, volume actually dried up until the end of the month, showing a consolidation phase. In the meantime, the VNIndex is also dropping back to Fibonacci 50% of the surge of May, signaling a strong bottomfishing demand.

Figure 10. VNIndex daily price



Source: KIS

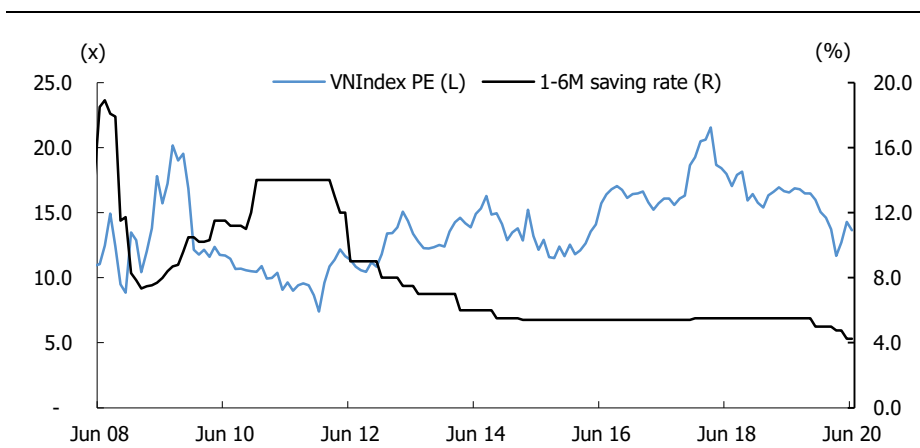
4. July strategy: Rerating

For July, we are more optimistic than June as the recent correction with diminishing volume looks like a consolidation period. Therefore, we expect to see the VNIndex resume its uptrend or stop falling at least in July. However, the market may become choppy by the month-end because 2Q business results of listed companies may make many surprises this year.

For the second half of this year, despite of no-longer-cheap valuation of the VNIndex index, we reiterate our view that ample liquidity will rerate the broad market. Lower saving rate will result in higher stock earnings multiple because these are alternative investment instruments, which we can see during 2009-2015 period.

In 2009-2011, 1M-6M deposit rate doubled from 7% to 14% and PE of the VNIndex slid from 20x to 7x. In 2012-2015, the rate was cut by almost two third from 14% to 5.4% and PE increased from 10x to 15x. In 2016-2018, although saving rate stayed flat, money inflow from Korea helped the multiple peaked at 21.5x in Mar 2018. At the present, because saving rate has been cut to 4.25% from 5.5% since late 2019, PE may increase from the 2019 average of 16.4x.

Figure 11. VNIndex PE vs saving rate



Source: Bloomberg, SBV, KIS

Rerating is the last resort

Although rerating is the last resort that we would like to bet on, we would like to argue that:

- While Vietnam economy is now less vulnerable than 2007-2008 crisis, the gap between stock earning yield (inversed PE) with saving rate is now at record high compared with the negative figures of 2008-2012.
- In a half of the past 12 years, rerating was the main reason for the VNIndex performance in both bull and bear markets.

Table 2. VNIndex change breakdown

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Earning yield – saving rate (% , avg)	-5.5	-1.8	-2.4	-3.3	-1.5	0.3	0.9	2.5	1.4	0.7	0.0	0.7	2.8
Price chg (%)	-66.0	56.8	-2.0	-27.5	17.7	22.0	8.1	6.1	14.8	48.0	-9.3	7.7	-14.2
EPS chg (%)	-28.1	74.2	13.9	2.5	-26.2	16.1	4.0	9.1	-12.4	26.3	10.7	12.8	-5.3
PE chg (%)	-52.7	-10.0	-14.0	-29.2	59.6	5.1	3.9	-2.7	31.1	17.2	-18.1	-4.6	-9.3

Source: Bloomberg, SBV, KIS.

Note: 2020 data includes 6 months through June.

VNIndex can close this year at above 900

Therefore, there is a high probability that the VNIndex will likely end up this year between 900-1,000, assuming that EPS will drop 9% (similar to KIS Universe) and the index will trade at higher earnings multiple than 2019 average of 16.4x.

II. July top 5

Taking into account likely positive 2Q earnings surprises, we would like to recommend Hoa Phat (HPG), Binh Minh Plastics (BMP), Power Construction No.1 (PC1), Vinamilk (VNM) and Sao Ta Food (FMC) for 2Q earnings season in July.

Table 3. Valuation of the top 5

Recommendation & TP				Earnings & Valuation									
Company				Sales	OP	NP	EPS	BPS	PE	PB	ROE	EV/EBITDA	DY
				(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(x)	(x)	(%)	(x)	(%)
Binh Minh Plastics (BMP)	Recommendation	Hold	2017A	4,055	663	464	5,109	29,317	10.5	1.8	19.8	3.7	6.5
	TP (VND)	n.a	2018A	4,121	608	427	4,750	29,973	11.3	1.8	17.6	3.9	7.4
	Price (02 July,VND)	53,800	2019A	4,341	601	421	4,696	30,164	11.5	1.8	17.2	3.8	7.4
	Mkt cap. (VND bn)	6,168	2020F	4,558	682	488	5,439	31,585	9.9	1.7	19.4	3.1	7.4
			2021F	5,076	678	478	5,331	32,899	10.1	1.6	18.2	3.0	7.4
Hoa Phat (HPG)	Recommendation	Hold	2017A	46,162	9,622	8,007	2,689	11,694	10.2	2.3	30.8	4.8	0.0
	TP (VND)	n.a	2018A	55,836	10,550	8,573	2,965	14,667	9.2	1.9	23.6	5.9	0.0
	Price (02 July,VND)	27,400	2019A	63,658	9,743	7,508	2,571	17,241	10.7	1.6	17.0	7.1	0.0
	Mkt cap. (VND bn)	2,457	2020F	79,522	13,715	9,511	3,257	20,122	8.4	1.4	18.4	4.4	1.8
			2021F	92,265	15,824	11,744	4,022	23,145	6.8	1.2	19.7	3.3	3.6
Sao Ta Food (FMC)	Recommendation	Hold	2017A	3,498	129	112	3,417	16,073	5.3	1.2	21.4	9.3	25.0
	TP (VND)	n.a	2018A	3,807	217	180	4,554	17,138	5.8	1.5	28.6	6.6	7.5
	Price (02 July,VND)	26,200	2019A	3,710	238	230	5,468	19,141	3.5	1.0	23.2	3.2	10.3
	Mkt cap. (VND bn)	1,422	2020F	4,341	274	254	4,684	24,303	5.6	1.1	20.5	4.8	9.5
			2021F	4,775	302	280	5,153	26,733	6.2	1.2	22.6	5.3	9.5
Power Construction No.1 (PC1)	Recommendation	BUY	2017A	3,161	355	237	1,197	16,847	14.3	1.0	10.2	7.7	0.0
	TP (VND)	23,200	2018A	5,084	657	467	2,429	19,578	7.0	0.9	16.1	4.5	0.0
	Price (02 July,VND)	17,100	2019A	5,845	594	358	1,863	21,578	9.2	0.8	10.9	6.4	0.0
	Mkt cap. (VND bn)	2,868	2020F	6,227	716	439	2,283	24,331	7.5	0.7	12.0	7.6	0.0
			2021F	6,065	1,003	496	2,584	27,447	6.6	0.6	12.0	8.5	0.0
Vinamilk (VNM)	Recommendation	BUY	2017A	51,041	11,430	10,296	6,355	16,109	18.0	7.1	45.2	14.9	4.4
	TP (VND)	124,400	2018A	52,562	11,212	10,227	5,295	14,807	21.7	7.7	41.6	14.9	3.9
	Price (02 July,VND)	116,600	2019A	56,318	12,182	10,581	5,478	15,797	20.9	7.3	39.7	13.6	3.5
	Mkt cap. (VND bn)	203,046	2020F	60,747	12,498	10,899	5,634	17,431	20.4	6.6	37.7	12.9	3.5
			2021F	65,274	12,877	11,354	5,869	19,300	19.5	5.9	35.5	12.1	3.5

Source: Respective company data, KIS

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